February 2022

GENERAL ECONOMY

- Despite the economic picture brightening in early 2021 due to massive fiscal stimulus, improved COVID numbers, eased restrictions and robust job growth, COVID continues to disturb many parts of the global economy. New virus variants, along with enduring product and labor shortages will continue to slow growth. While these issues will continue well into 2022, we think the U.S. economy will continue to show solid growth.

- The combination of huge stimulus efforts, supply chain issues, labor shortages and soaring budget deficits have pushed up inflation fears. While these issues will linger for some time, most of the long-term structural trends that have kept inflation low for more than a decade remain.

- We continue to cautiously watch the course of COVID around the world. Even if the pandemic lessens, much of the developed world still faces long-term problems such as aging populations, slow global growth, trade or geopolitical tensions, the difficulty of unwinding of extreme monetary policies and heavy debt loads.

STOCK MARKET

- Current equity valuations remain elevated and reflect a great deal of faith that earnings growth will continue for some time. The ability of stocks to continue to deliver gains will be dependent on continued economic growth, moderate interest rate increases and changes in tax policy.

- We are heartened by recent gains in market breadth and the beginning of a rotation from pricey growth issues into value and smaller stocks, rather than the long-time concentration of a few highly valued and quickly growing mega-cap tech companies.

- Although we expect U.S. stock returns to be modest over the next few years, those returns will likely still outpace cash and fixed income returns. We continue to focus on domestic companies with solid balance sheets, consistent cash flow, organic revenue and profit growth, and a solid and growing dividend.

BOND MARKET

- While inflation has soared in 2021 and short interest rates have risen with forecasts of the Fed doing two to four Fed Funds rate increases in 2022, we still expect longer term rates to show modest increases over the next two years.

- We continue to have concerns that low interest rates have diminished (but not eliminated) the two primary reasons to own fixed income in a portfolio, which are providing a stream of income and a buffer to equity market price volatility. Bond holders should be aware that with low interest rates, duration risk has increased and credit risks should continue to be closely monitored.

- The Federal Reserve will continue to use all tools necessary to keep U.S. economic activity expanding and credit markets functioning. High debt levels of corporate and government issuers (especially in China), recent elevated inflation, lingering banking troubles and extreme monetary policies all demand caution in the global bond markets.